



# **The Road Ahead**

**Accelerating the Transformation  
of the Department of Defense  
Information and Logistics  
Architecture and Practices**

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ACQUISITION AND  
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## THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

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The Department of Defense is engaged in a Revolution in Business Affairs. A significant part of the Revolution is a more efficient and effective acquisition and logistics environment that will deliver high performance weapon systems and support to our warfighters in less time, and at a lower total cost of ownership. The end result will be a military force that not only meets the needs of today, but has superior capability over the next decade.

We have come a long way during the last seven years in meeting that goal. We have forged a strong partnership between the Congress, the Administration, industry, labor unions, our acquisition community and our ultimate customers, the warfighters. Through the many reform initiatives and spirit of empowerment, our workforce has embraced new ways of doing business and generated new ideas for continued process improvement.

In the Fiscal Year 1998 National Defense Authorization Act, Congress presented us with an opportunity to look strategically at acquisition and logistics reform, to reflect on the lessons learned from our success and to think about the road ahead. We have used this opportunity to address some of the complex issues that will leverage our achieved success into even greater success over the long-term.

This "Road Ahead" paper is a result of that strategic thinking. It celebrates our achievements, but also lays out an ambitious course that we must travel together in order to build on those achievements and continue our progress. I encourage you to not only read it, but share it as well with your co-workers, staffs, and other interested parties. We are actively soliciting the support of all of our partners in continuing the reform journey. Please provide us your ideas (e-mail us at [feedback@acq.osd.mil](mailto:feedback@acq.osd.mil)). Your ideas and your support are crucial to its success.

J. S. Gansler



# **The Road Ahead**

## **Accelerating the Transformation of Department of Defense Acquisition and Logistics Processes and Practices**

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### **Introduction**

This report is designed to communicate the key elements of the Department of Defense's vision of its future acquisition and logistics environment, and to outline initiatives underway to accelerate the Department's progress toward achieving that vision. The report provides highlights of several of the key studies chartered in response to Congress's direction in Section 912(c) of The National Defense Authorization Act for Fiscal Year 1998. Congress directed the Department of Defense to identify key additional steps the Department could and should take to build on the acquisition reforms of the previous five years. In addition to those highlights, this report provides a range of additional initiatives that have been or will be launched by the Department.

Taken together, these efforts represent the Department's vision of the future acquisition and logistics environment. All of the initiatives are designed to help DoD achieve its vital goals of providing modern, high performance weapons systems and support to America's fighting men and women in less time, at lower cost, and with higher performance, than has ever before been the case.

This critical goal is driven by the well established reality that the nation and the Department find themselves in an era of new highly unpredictable security challenges, the focus of which is not one or two clearly identified nation threats, but, rather, a wide array of rogue nations and transnational actors, regional instability, and unprecedented threats from chemical and biological weapons, in addition to the continued threat of nuclear warfare. The *military and strategic requirements* associated with battling these new threats are often referred to as the Revolution in Military Affairs (RMA).

Through the RMA, the Department has committed to equip the early 21<sup>st</sup> century

warfighter with the correct equipment to assure our security and withstand any potential threat by, among other things:

- achieving an integrated, secure, and “smart” command, control, communications, intelligence (C<sup>3</sup>I) infrastructure;
- developing and deploying long-range, all-weather, low-cost, precise, and “brilliant” reconnaissance and strike weapons;
- achieving rapid force projection and global reach of our military capability;
- developing and deploying credible deterrents and counter-measures against the complete range of asymmetric weapons; and
- achieving interoperability among U.S. Forces and our Allies.

### **The Revolution in Business Affairs**

The pre-requisites to achieving the goals of the RMA are many and cut across all facets of the Department of Defense, particularly the arena of acquisition, logistics and technology. Yet, despite the now widely accepted precepts of the RMA, the Department continues to rely on acquisition processes, organizations and infrastructure largely developed in the years following World War II. Moreover, the Department continues to face a limited investment budget constrained by a relatively stable top-line budget, and squeezed by increased operations and support costs from aging weapon systems.

In short, in order to meet the requirements of the RMA, it is equally important that the Department also wage a successful Revolution in Business Affairs (RBA).

To be sure, the RBA at the Department has been underway for several years and remains among the highest priorities of the Department’s civilian and military leadership. Its primary focus has been on the following three top-level goals and corresponding objectives:

**Goal 1:** Field high-quality defense products quickly; support them responsively.

**Objective:** Reduce the average acquisition systems cycle time (measured from program start to initial operating capability) for all Major Defense Acquisition Programs (MDAPs) that started since FY 1992 by 25 percent (from 132 months to 99 months); and by 50 percent (to 67 months) for all programs started in FY 1999 or later.

**Objective:** Reduce logistics response time from an average of 36 days (in FY 1997) to 18 days by FY 2000. (By CY 2001, a customer wait time objective will be developed.)

**Goal 2:** Lower the total ownership cost of defense products.

**Objective:** Minimize cost growth in major defense acquisition programs to no greater than one percent annually.

**Objective:** For fielded systems, reduce the logistics support cost per weapon system per year compared to an FY 1997 baseline as follows: seven percent by FY 2000; ten percent by FY 2001; and a stretch target of 20 percent by FY 2005. The FY 1997 baseline is \$82.5 billion.

**Goal 3:** Reduce the overhead cost of the acquisition and logistics infrastructure.

**Objective:** Reduce the funding required by logistics and other infrastructure from 64 percent of Total Obligation Authority (TOA) in FY 1997 as follows: 62 percent by FY 2000; 60 percent by FY 2001; and a stretch target of 53 percent by FY 2005.

DoD has made substantial progress on these goals and objectives:

- As of today, the average MDAP cycle time for post FY 1992 starts is projected to be 97 months—two months below the objective.

- DoD has met its 18-day target for the average time required to provide spare parts through the logistics system, and improved asset visibility and accessibility from 50 percent (FY 1996) to 94 percent (FY 1999). These initiatives have also had a profound impact on reducing supply inventory in the Department by \$12 billion, from \$67 billion (FY 1996) to an estimated \$55 billion (FY 1999).
- Since FY 1998 (and projected through FY 2001), DoD's average annual MDAP cost growth has been .1 percent, -.3 percent, 3.1 percent, and .9 percent respectively.
- For FY 2000, weapon system logistics costs is \$77.9 billion (in constant FY 1997 dollars), just slightly behind the \$76.7 billion target.
- The funding for logistics and other infrastructure is 60 percent of TOA in FY 2000—two percentage points better than the target.

The achievements are due in part to the fact that the three goals interrelate in a strategic way. They seek to remove the barriers to change and improve the Department's ability to be innovative in order to improve readiness and accelerate modernization. At the same time, the reverse is also true: in order to achieve the Department's readiness and modernization goals, the same degree of innovation we see today in our fighting forces must also become critical elements of our acquisition and logistics practices and processes.

In recent years, DoD has done much to improve its acquisition practices and policies through acquisition reform, and to transform its logistics systems to integrated supply chains driven by modern information technologies and a wide range of best business practices that have been proven in the commercial sector. For example:

- The Defense Acquisition Pilot Programs, which include five major weapon systems specifically identified by Congress to be test beds for many new acquisition practices, have yielded

savings as high as 50 percent over previous, official cost estimates, and have been or are on schedule to be fielded far faster than DoD's normal 8 to 12 years. Most importantly, the first of these systems to be utilized in wartime—the Joint Direct Attack Munition, which was deployed for the first time during the recent conflict in Kosovo, performed flawlessly.

- DoD is using credit cards for over 90 percent of its transactions below \$2500, resulting in savings and cost avoidance to the Department in the hundreds of millions of dollars.
- The Single Process Initiative, which was launched as a means of eliminating duplicative processes and introducing appropriate, commercial-like processes at defense manufacturing facilities, has enabled the conversion of more than 200 facilities to ISO 9000 standards (replacing DoD's traditional and unique quality standards), allowed the rationalization of numerous manufacturing processes, and much more, resulting thus far in savings and cost avoidance of over \$500 million.
- The Department is pursuing innovative acquisition practices to further integrate the civil-military industrial base. For example, as a result of a manufacturing technology initiative circuit boards for the F-22 are being produced on a commercial rather than a military line. This kind of practice will allow us to capitalize on advanced commercial technology and take advantage of large production runs.
- DoD, with the help of the Congress, has dramatically altered the manner in which the Department deals with its suppliers, creating an environment that fosters closer, ongoing communications, focuses more directly on actual performance rather than promises, and opens the door to the kind of supplier alliances that have become hallmarks of excellence in the commercial world.

- DoD has significantly reduced the use of detailed military specifications and standards in favor of far greater use of commercial performance standards, thereby reducing costs and enabling access to a wider array of technologies and solutions.
- The use of Other Transactions Authority has enabled DoD to access dozens of commercial technology providers, that were otherwise unable to do business with the Department, in the research and prototyping of new, cutting edge technologies of importance to the Department.
- The Department has begun to aggressively pursue innovative, performance-focused logistics support strategies that are resulting in both improved delivery and response times, while also enabling reductions in unnecessary infrastructure in the Department.
- DoD has reduced its acquisition and technology workforce by nearly 50 percent over the last ten years and continues to devote significant resources to defining the Department's long term workforce requirements, in terms of both skills and numbers, for the years ahead. The Department also had 104,500 participants (those currently covered by the Defense Acquisition Workforce Improvement Act, which equates to 72 percent of the newly defined "key acquisition and technology workforce;" the remaining 28 percent will be covered under new continuous learning policy to be issued in FY 2000) engaged in continuing education programs and training in FY 1999.

These are just a few of the many dramatic changes that have taken place, and continue to evolve, in the Department of Defense. Despite the exceptional progress that has been made; however, the Department continues to face daunting challenges in its efforts to truly transform its business and logistics practices and to meet the requirements set forth in the RMA. The

studies conducted pursuant to Section 912(c) National Defense Authorization Act of FY 1998 were conducted to help the Department gain insight, in an integrated, across-the-board manner, into those areas where reform initiatives should be most focused.

The studies covered a wide range of issues: command, control and communications; the setting of weapon system requirements; the unique challenges of acquiring services (as opposed to products); the future of the Research, Development, Test and Evaluation (RDT&E) capabilities of DoD; Price Based Acquisition; re-engineering product support; accelerating, implementing and managing change; and much more. And the overarching findings of each study reinforce the necessity of significant, additional reform. For example,

- The RDT&E Infrastructure Study Team found that we have not reduced infrastructure by as much as we could—at least 25 percent more could be attained by FY 2005. This will allow DoD to focus its research and development (R&D) resources on those critical areas in which DoD's leadership and involvement is most necessary and valuable.
- The Product Support Study Team found that we have not done enough to transform the logistics system. We can expand the use of competitively sourced support for both new and legacy systems; improve reliability, maintainability, and sustainability through continuous technology refreshment; expand the use of prime vendor and virtual prime vendor support; reengineer financial processes; better integrate supply chains; and implement complementary information systems. The Program Manager Oversight of Life Cycle Support Study Team identified 30 pilot programs to serve as platforms to demonstrate these strategies.



- The Requirements/Acquisition Interface Team recommended that interoperability be a key performance parameter, cost be included in the Operational Requirements Document, requirements be expressed in a time-phased manner, and that cost of delay analyses be conducted as part of an integrated effort to reduce acquisition cycle times.
- The Training and Tools for Acquisition of Services Team found that we do not have sufficient performance-based training for acquisition of complex services.
- The Commercial Business Environment Study Team found that DoD has not done enough to accelerate cultural change—we need to adopt an acceleration change model emulating best commercial practices.

This report will focus on the principal findings and recommendations of several of those studies, as well as additional initiatives, not directly tied to the Section 912(c) studies, that the Department has initiated. Each of the initiatives have benefit in their own right, of course, but at the same time, the synergy among them is both powerful and central to their real success. Indeed, even as each study team identified challenges—and developed action plans for meeting those challenges—in its area, it is clear that no one aspect of the acquisition or logistics system can produce the results needed if DoD is to meet its most fundamental missions.

The integrated perspective provided by the studies conducted under Section 912(c), more than anything else, makes clear the inextricable links among all aspects of the Acquisition process—from requirements generation, to technology development, acquisition, and support. Thus, the Department's ongoing initiatives to accelerate change include all aspects of that process.

Moreover, the study process has also made unmistakably clear the fact that the Department is struggling, and will

increasingly struggle, to keep pace with or access new, leading-edge technologies. Indeed, this finding, perhaps more than any other, speaks to one of the key focus areas of acquisition and logistics reform and the overall RBA: in the technology era of today, the Department, and the U.S. Government at large, are no longer the driving forces behind the development of most new technology, including many critical new technologies required by the Department to meet its mission.

That technology development, including both functional technology and technology designed to support optimal business operations and support, is now led by the commercial world, where research and development has increased steadily at a rate of about 5 percent per year for more than 20 years—while U.S. Government spending on research and development has dropped some 2.5 percent per year during the same period. It is clear that this trend is NOT going to be reversed, and that the Department must improve its ability to be a “player” in the development of new technology in the commercial world.

Thus, wherever possible, the Department must adapt its business practices and systems to those that have been proven and are widely relied upon in the commercial world, and can no longer expect that world to adapt its practices to us. This can be, and has been, done in ways that fully protect the public dollar and interest, and the unique needs of America's military. But it is a reality we must face.

### **The Road Ahead**

As noted earlier, DoD's top line goals are clear: reduced cycle times for new weapons systems (which translates directly to our goal of providing new capabilities and support to the warfighter more quickly than ever before); reducing total ownership costs of our weapons systems (which translates directly to the freeing up of precious dollars for investment in new technologies and capabilities); and rightsizing our acquisition

workforce and infrastructure (which ties directly to the Department's ability to both realize the savings and efficiencies of new ways of doing business and supporting our troops and systems in a manner that is optimally efficient).

Achieving that vision, requires that DoD's acquisition and logistics reform initiatives be built on six focus areas, each of which has its own set of outcome metrics that link each focus area to the Department's overall goals. Within the focus areas, DoD has identified a set of near term actions to be completed within the next five years. Achievement of the actions identified for each focus area (see the attached appendix for specific actions) will be measured by a leading indicator of change.

**1. DoD will increasingly rely on an integrated civil-military industrial base.** The reality is that the two industrial bases have already largely merged, yet, DoD's business practices have not kept pace with that fundamental shift. Gaining access to the global commercial industrial base will enable DoD to take advantage of the technology found in world-class commercial companies that have maintained leadership positions in worldwide commerce and, at the same time, help to increase competition for the products and services DoD purchases. DoD must position itself to access commercial technology and to take advantage of large, commercial production runs, thereby reducing costs through economies of scale.

Enabled by open systems architecture and procurement reform, wherever possible, DoD will seek to insert commercial technology and products into its new and legacy systems to improve reliability, maintainability, and sustainability through continuous technology refreshment. This means, in addition to other things, expanding military specifications (milspec) and standards reform (first launched in 1993) to include legacy systems, with the recognition that integrating new solutions

into existing systems is a complex undertaking. However, by extending milspec reform to legacy systems the Department seeks to make the search for new solutions the first priority.

To achieve its goal of civil military integration, DoD will again seek the support of and partnership with Congress that has been so essential to previous reform efforts. The Department plans to submit to Congress, for inclusion in the FY 2001 Department of Defense Authorization Bill, a series of legislative proposals designed to overcome statutory obstacles that stand in the way of the Department's RBA.

In addition, the Department has already begun to develop internally a series of policy changes focused on expanding previous reforms and continuing the Department's efforts to eliminate non-value-added government unique processes and policies in favor of proven, performance-based, commercial standards. For instance:

- In October 1999, the Department launched a comprehensive review of the status and future requirements in the area of specifications and standards reform;
- The Department will soon issue new acquisition policy with regard to the management of government furnished property which will rely on commercial-like practices;
- The Department is currently conducting a pilot program to test the application of commercial packaging specifications to military requirements; and
- The Department will seek to significantly expand the use of commercial services contracting, which will enable access to proven, commercial strategies that are largely driven by modern information and other technologies in both business and supply chain activities. This strategy will also drive greater use of competition (including public-private competitions) in determining the most efficient and effective means of service delivery.

Each of these initiatives is designed to both eliminate unneeded and costly government unique requirements and to expand the Department's access to commercial providers who currently are often unable to do business with the Department because of the added costs and systems requirements associated with such practices and policies.

Leading indicators of change in this area include increasing the dollar value of Federal Acquisition Regulation (FAR) Part 12 contracts and the dollar value of firm-fixed price competitive R&D contracts. The Department has established FY 2005 stretch targets of doubling current levels for the former and a 25 percent increase for the latter.

**2. DoD will adopt and rely on a new approach to systems acquisition where price and schedule play a key role in driving design development and systems are reviewed by portfolio.** *The warfighter*

*must be in a position to place a dollar value on improved capability and choose among potentially dissimilar alternatives.*

Warfighter requirements must be clearly stated and address a validated need. In the new systems acquisition environment, key acquisition and long term funding commitments will not be made until technology is mature and risks are far better understood (and strategies to mitigate them better developed) than is currently the case. When feasible, adopting a time-phased, incremental approach to systems development, allows the Department to field new technologies more quickly, especially for automated information systems. This will also enable the acquisition of products on the basis of overall price and performance, as is the rule in the commercial technology world. The end result can be newer technology in the hands of the warfighter sooner, a wider, competitive marketplace from which to purchase needed solutions, and fewer dollars idling in the acquisition pipeline.

The Chairman of the Joint Chiefs of Staff Instruction (CJCSI) 3170.01A has already been updated to suggest time-phased requirements when feasible. The CJCSI further mandates that, interoperability be made a key performance parameter, and cost will be addressed in the operational requirements document (ORD) as an affordability issue. Currently, the OSD and Service staffs are engaged in a rewrite of the Department's "5000 Series," which set forward DoD's guidance on systems acquisition. This rewrite will address evolutionary acquisition, increased technical maturity before starting acquisition programs, integration of acquisition and logistics early in the process, increased and continuous operational assessments, and more. All these changes will need support from Congress to be effective.

Leading indicators of change include the number of MDAPs with cost as a key performance parameter and planned evolutionary acquisition strategies. The Department has targeted a 75 percent figure for FY 2005.

**3. DoD will transform its mass logistics system to a highly agile, reliable system that delivers logistics on demand.** We spend more than \$80 billion annually on logistics but do not have matching logistics performance (e.g., responsiveness, service, value, readiness) to this investment level. Logistics reform must move toward performance based support and link modern warfighting and modern business practices. The commercial marketplace demonstrates that product support can be optimized and to create a strategic advantage by focusing on customer service, integrating supply chains, capitalizing on rapid transportation, and exploiting electronic commerce. When applied to Defense, this equates to integrated logistics chains focused on readiness and rapid service to the warfighter customer. Providers would be selected competitively based on best value. Long-

term partnerships would be formed with a subset of preferred providers.

Instead of continually focusing on product procurements, our logistics operations will increasingly rely on the purchase of services, so that the supplier has the performance responsibility for keeping the product technologically current, thus providing the warfighter with continuously improved capability and readiness.

To accomplish this fundamental transformation, the Department has developed a long term logistics reform strategic plan and begun the process of implementing new business strategies (such as Defense Logistics Agency (DLA) Prime Vendor Total Systems Performance Requirements, electronic commerce, increased Departmental focus on modern information technology as a key tool for improvement in, and reducing the costs of, the support of the Department's aging weapons systems, and more). The Department has also identified 30 pilot programs (10 per Service) on which it is testing its initiatives to reduce total ownership cost.

To make this new vision of modern logistics a broader reality, however, support from the Congress is needed, particularly in the area of removing restrictions on competitive sourcing and providing necessary financial flexibility to enable the Department to optimize its support operations. It also requires the clear recognition that where such strategies as Apache Prime Vendor Support and similar approaches are employed, the Department's ability to fully reap the benefits of such strategies hinges at least in part on a concurrent willingness and ability to make the requisite infrastructure and personnel adjustments.

Pilot program initiatives will be leading indicators of change. DoD has established stretch targets for pilot programs to have product support strategies in place by FY 2001 and have programming identified to

support these strategies in the FY 2002-07 Program Objective Memoranda (POM).

#### **4. DoD will reduce its acquisition infrastructure and overhead functions.**

With increased reliance on the commercial products, technology, and competitively sourced products, excess capacity will occur. DoD will no longer retain excess capacity. DoD will streamline its management and financial information systems by large-scale adoption of proven commercial business processes in information technology and financial management.

To accomplish these reductions, DoD has created a blueprint for restructuring labs, research and development centers, and test facilities to continue to encourage intra-and inter-Service efficiencies. As we face the realities of a "graying" workforce, the challenges posed by the downsizing of recent years, and the changing demands on its workforce, DoD has also launched significant initiatives focused on the workforce skills needed for the next century and how best to shape and mold the workforce to meet those requirements.

DoD is also working on initiatives to upgrade our facilities. One such initiative involves creating new housing stock for Service men and women and their families either by repairing the current housing, building new housing, or engaging in creative partnerships with private industry. In addition, DoD is moving towards privatization of utilities where that is feasible. Finally, DoD needs another round of Base Realignment and Closure (BRAC) to divest excess capacity. We will need help from Congress to achieve our goals in all these areas.

RDT&E cost reduction is a leading indicator of change, DoD has targeted a ten percent reduction by FY 2000 and a 25 percent reduction by FY 2005.

#### **5. The DoD workforce will be trained with the requisite skills to operate efficiently in this new environment and**

**will perpetuate continuous improvement.**

In order to operate in this new environment, the acquisition workforce must have a complete understanding of commercial business practices and how to learn about and acquire both products and services. This knowledge will be obtained for both the individual and his/her work team through appropriate training via Defense Acquisition University courses, the latest technologies to bring education to the workforce, and an increased emphasis on courses available on the open market, which will both increase the Department's training throughput and help ensure that the workforce is receiving the appropriate balance of commercial and government-unique training competencies. Each practitioner's knowledge will be continually refreshed through continuous learning as changes in both the environment and in new processes and practices occur with particular focus on moving from transaction-driven work to the management of processes.

To accomplish this goal, the Department has already instituted a new continuous learning policy for the key acquisition and technology workforce. This policy mandates that each member of that workforce receive at least 80 hours of continuous learning every two years. In addition, the Department is expanding the scope of coursework available through technology based learning (computer based training, distance learning via the worldwide web, etc.) through the Defense Acquisition University and outside sources. During FY 2000, the Department will also provide to all members of the key acquisition and technology workforce both a catalog of coursework that is available as well as a "core curriculum," that is, a series of training modules, most of which will be available through distance learning technologies, that focus on key areas of change.

Significant among these initiatives, are a new web-based course on commercial supply chain management developed, at no cost to the Department, by the National

Contract Management Association (NCMA) in partnership with the National Association of Purchasing Management (NAPM), (which has now been taken by more than 2000 members of the acquisition workforce), and a special commercial practices "immersion" course provided by the Darden School of Business at the University of Virginia (through the Defense Acquisition University), for senior military and civilian acquisition leaders. Early in calendar year 2000, the Department will also launch a new offering from NCMA/NAPM, focused on the acquisition of services in a performance-based environment. The Department has also launched a full review of its acquisition management courses (including a restructured approach to the Department's program management training) and has recently launched a major initiative to define the future acquisition workforce and develop a career management strategy designed to help ensure that the Department's career development program is in synch with its future workforce requirements.

One leading indicator of change is how much of the acquisition workforce is taking continuous education in identified focus areas. DoD has targeted that 100 percent of the acquisition workforce should be doing this within one year of the establishment of focus area courses.

**6. DoD will institutionalize continuous improvement or change management throughout the DoD enterprise to ensure a virtual learning environment.** World-class companies have adopted systematic change models, which have enabled them to become more efficient and to continue to maintain their competitiveness in the global marketplace. Utilizing a systematic model allows companies to implement change initiatives quickly and efficiently across their organizations and to maintain a culture of continuous change. DoD will routinely use a proven enterprise change model to rapidly implement the business process changes required to better support the warfighter. To

accomplish this goal, the Department and its leadership will:

- Provide commitment and continuing advocacy of change. They provide the vision, goals, and recognize change agents;
- Establish action acceleration workshops to identify and train change agents;
- Initiate rapid improvement teams (RITs) to change specific processes and cultures;
- Create a change management office to sustain endeavors begun under the change management model; and
- Ensure accountability of the business unit manager and their teams to implement and achieve bottom line objectives of the enterprise and business unit.

Enterprise “outcome-driven performance scorecards” will be developed for each performance outcome goal and used to measure progress against established outcome-driven performance baselines. The scorecards will measure:

- Attainment of DoD desired performance outcomes;
- Customer/supplier/employee satisfaction; and
- Achievement of reform targets.

Leading indicators of change in this area will be measured by the annual acquisition reform survey. For the next survey, DoD has targeted a 50 percent increase in the extent acquisition reform initiatives are impacting people’s jobs and a ten percent decrease in neutral or negative support for reform from management.

## **Conclusion**

Acquisition and logistics reform represents a significant cultural change for the Department’s acquisition, logistics, and technology workforce. Given the size and complexity of the Department, the changes that have been realized in just five years are remarkable. Moreover, as the results to date listed earlier indicate, our internal

measures clearly document significant progress as well.

Yet, despite the commitment of senior management and much of the workforce to DoD’s goals and their implementation, resistance to change is still too often encountered from the workforce and its managers. Too many still cling to traditional acquisition and logistics practices. Others have not become fully knowledgeable about the flexibility of acquisition and logistics reform and the direct benefits of accelerating reform progress across the Department’s acquisition and logistics processes. In many other cases, the workforce simply has not yet been provided the requisite tools with which to effectively execute the mission they have been given.

The “Road Ahead” for the Department, therefore, is focused on both additional change and a series of initiatives designed to provide those tools to the workforce.

Using this report as a baseline, along with other ongoing guidance and communications, DoD is primed to accelerate its acquisition and logistics reform efforts with a new set of initiatives designed to produce even greater outcome-driven performance improvement results well into the next century. To make this happen, DoD will become a learning organization that embraces best practices, empowers its workforce, and achieves optimal solutions at affordable costs in support of the warfighters.

It will take commitment and hard work across the Department’s business communities to accelerate progress. The Department must successfully adopt performance-based, commercial business processes and practices to field the most technologically advanced, best-equipped, and most mission capable fighting forces in the world to come. Given the progress that has been made to date, there is every reason to believe that the Department will achieve that fundamental goal.

## APPENDIX A

### IMPLEMENTING ACTIONS

#### **1. DoD will increasingly rely on an integrated civil-military industrial base in lieu of a defense-unique industrial base.**

##### **A. Extend military specification and standard reform to reprocurements.**

*Why action is critical:* The initial military specification and standard reform policy was limited to new acquisitions. Use of performance based acquisitions is essential to enable logistics reform at all phases of a program's life cycle.

*Action:* Establish a senior steering group to develop an implementation strategy.

*OPR:* DUSD(AR).

*Leading Indicator of Change:* Ideally, we would use an accelerated rate of increase in the dollar value of performance based contracts for supplies. Because it will be a year before our databases are able to capture this information, we will use the dollar value of firm-fixed price competitive procurements for products. The baseline is \$7.5 billion in FY 1999.

##### **B. Incentivize suppliers by using acquisition strategies that give contractors flexibility to innovate and access commercial solutions.**

*Why action is critical:* Need to engage with defense supplier base to define ways to rapidly access commercial technology, reducing acquisition cost and cycle time, while sustaining readiness.

*Action:* Work through the Corporate Councils and Industry Associations to develop flexible acquisition strategies and policies. As necessary, conduct an Action Acceleration Workshop for Performance Management of Suppliers. Convene a RIT to develop an action plan for accelerating use of FAR Part 12, establish Service goals, and develop guidance for the acquisition workforce. Develop policies and issue guidelines necessary to enable long term acquisition strategies to be used

to attract commercial vendors to the defense market.

*OPR:* DUSD(AR)

*Leading Indicator of Change:* An accelerated rate of increase in the dollar value of FAR Part 12 acquisitions with primes. The baseline is \$12.6 billion in FY 1999 with no discernable trend in prior years.

##### **C. Migrate DoD oversight and buying practices to management of suppliers, not supplies.**

*Why action is critical:* Need to establish strategic alliance relationships among buying commands and suppliers to gain insight into, and apply, business sector best practices in such processes as government property, materiel management and accounting systems, performance-based payments, single process initiative, and past performance. Need to establish trust in relationships to manage through insight, rather than oversight. In this way, we will be in a good position to engage with the defense supplier base to define ways to rapidly access commercial technology, reducing acquisition cost and cycle time, while sustaining readiness.

*Actions:* 1) Prepare, with industry collaboration a vision for supplier management for the 21<sup>st</sup> Century to communicate joint leadership objectives for the RBA. 2) Develop strategic alliances with key defense suppliers; launch six strategic alliance pilot programs by September 2000. 3) Target specific barriers to Civil Military Industrial Integration for policy change and draft legislative proposals for the FY 2001 legislative cycle as appropriate. 4) Develop, by summer 2000, a DoD supplier handbook and, as

necessary, other DoD and industry training, on-line or in classrooms, to ensure effective implementation and institutionalization of these policies.

*Leading Indicators of Change:* An accelerated increase in negotiated savings and the estimated cost avoidance from the Single Process Initiative. The cumulative baselines is \$30.6 million in negotiated savings and \$523.8 million in estimated cost avoidance as of February 10, 2000.

#### **D. Expand use of performance-based acquisitions by streamlining procurements for services.**

*Why action is critical:* Performance-based acquisitions provide access to innovative ways to solve Defense problems through use of commercial processes, products and practices.

*Action:* Use RITs to refine acquisition strategies/policies, establish Service goals, and develop guidance for the acquisition workforce.

*OPR:* DUSD(AR)

*Leading Indicator of Change:* Ideally, we would use an accelerated rate of increase in the dollar value of performance based contracts for services. Because it will be a year before our databases are able to

capture this information, we will use the dollar value of firm-fixed price competitive procurements for services. The baseline is \$14.9 billion in FY 1999.

#### **E. Expand the use of price-based acquisition.**

*Why action is critical:* DoD cannot access state-of-the art technology from the commercial sector, nor achieve lower overhead costs depending on defense-unique industries that operate on low volumes.

*Action:* Change the requirements and systems acquisition processes to allow the use of price-based acquisition for research and development, without shifting significant risk to contractors, by understanding value, identifying and understanding risk, and having alternatives. Educate the workforce to use price-based acquisition to the maximum extent practicable when competition is available.

*OPR:* DUSD(AR)

*Leading Indicator of Change:* A continuing increase in the dollar value of firm-fixed price, competitive R&D contracts. Since FY 1994, this indicator has fluctuated with no apparent trend. The FY 1999 baseline is \$2.09 billion.

## **2. DoD will adopt a new approach to systems acquisition where price and schedule play a key role in driving design development and systems are reviewed by portfolio.**

#### **A. Develop a way to look at programs on a portfolio basis.**

*Why action is critical:* In order to operate in the current threat environment, warfighters need to have flexibility in regard to alternative ways to introduce new capability quickly. Such new capability must be able to interoperate with both U.S. Forces and Allied Forces (in terms of common consumables such as fuel and ammunition and in terms of being able to communicate and transfer data). To achieve flexibility in delivering capability, there must be a viable alternative to a specific acquisition program.

This alternative does not have to be another version of the system, but must be another solution to the same capability need. In order to interoperate, there must be a common architecture and common information exchange requirements. The examination of alternatives and assurance of interoperability can only come when a specific acquisition program is reviewed in the context of the other programs or legacy system with which the specific program must interoperate. Such a review is done by mission area or portfolio. The result will be lower cost systems, with capability



delivered more quickly to the warfighter. The warfighter will be better able to use the full-range of capability available.

*Action:* Change DoD 5000.2-R to require the acquisition strategy to address competition and interoperability. Ensure that the Milestone Decision Authority addresses competition and interoperability at each acquisition program review.

*OPR:* D,ARA and DUSD(AR) with DUSD(IO) and D,DP.

*Leading Indicator of Change:* Number of DAB reviews in which viable competitive alternatives are addressed and in which interoperability is reviewed. The baseline is zero in FY1998.

### **B. Address cost in the ORD**

*Why action is critical:* Only the warfighter can determine what a system is worth, compared to other capability needs and their costs. Inclusion of cost allows the DoD component sponsor to emphasize affordability early in the proposed program. This determination of value will drive design. This value analysis must be made in terms of both acquisition costs and in life-cycle costs. Reduction in life-cycle costs will result from identification of key cost drivers and ways to reduce those costs as well as from increasing reliability in new systems and providing for technology upgrades throughout the life of legacy systems.

*Action:* Change DoD 5000.2-R.

*OPR:* D,ARA and DUSD(AR).

*Leading Indicator of Change:* The number of MDAPs with cost as a key performance parameter. The baseline is one out of 80 in FY 1998.

### **A. Implement time-phased requirements and evolutionary acquisition.**

*Why action is critical:* The time to complete the acquisition process to meet the stated requirement has lagged behind changes in the requirement scenario and the capabilities that are provided by technology advances. The result has been extensive acquisition cycle times with the warfighter acquiring a capability late-to-need and generally lagging cutting edge technology. An integrated use of time-phased requirements, more mature technology, evolutionary acquisition, and the early use of test and evaluation for discovery can result in reduced cycle times so that the warfighter will get delivery of required systems sooner and in planned increasing increments of capability to meet the evolving threat.

*Action:* Change DoD 5000.2-R.

*OPR:* D,ARA and DUSD(AR) with DOT&E.

*Leading Indicator of Change:* Number of strategies with a planned evolutionary acquisition approach. The baseline is zero in FY1998.

## **3. DoD will transform its mass logistics system to a highly agile, reliable system that delivers logistics on demand.**

### **A. Implement DoD Logistics Transformation Plans.**

*Why action is critical:* The Military Components, DLA, and U.S. Transportation Command (USTRANSCOM) are preparing transformation plans to obtain resources and implement the DoD Logistics Strategic Plan goals and objectives. Four milestone objectives are of particular importance.

1. Implement Customer Wait Time as a new logistics metric (measures all

aspects of the time from requirement determination until that requirement is satisfied) using variance-based metrics by the schedule identified in the FY 2001 Logistics Strategic Plan.

2. Establish a time-definite delivery as the standard for materiel receipt, thereby instilling customer confidence by FY 2002.
3. Integrate Automatic Identification Technology and Automated Information

systems at all levels to capture accurate and timely information thereby obtaining complete, actionable joint asset visibility by FY 2004.

4. Implement a real-time, network-centric logistics information environment through existing and projected information modernization initiatives for deploying forces by FY 2004 and to other forces by FY 2006.

The goal is to provide the joint warfighter with real-time logistics situational awareness by leveraging technology and optimizing logistics processes while reducing costs.

*Action:* The Military Components, DLA, and USTRANSCOM will submit their transformation plans by July 2000.

*OPR:* DUSD(L); OSD(PA&E); Services, DLA, USTRANSCOM

*Leading Indicator of Change:* Beginning in CY 2001, Military Components, DLA, and USTRANSCOM POMs will fully fund their transformation plans. The baseline will be established when the first plans are submitted in July 2000.

#### **B. Identify Section 912(c) Pilot Program product support reengineering initiatives.**

*Why action is critical:* Pilot programs are critical platforms to demonstrate product support reengineering initiatives and assess their value, benefit and application to systems across DoD. As recommended by the Section 912c report, product support strategies should reflect pursuit of the following; reengineering using best practices; performance based logistics; partnering; competitive sourcing; improved reliability, maintainability, and sustainability through continuous technology refreshment; and expanded prime vendor, virtual prime vendor, and other strategic material sourcing strategies.

*Action:* The 30 Section 912(c) pilot programs will develop and submit to OSD comprehensive program implementation plans that include product support reengineering initiatives.

*OPR:* DUSD(L), Program Managers, Program Executive Officers, Services  
*Leading Indicator of Change:* Number of the 30 RTOC (reduction of total ownership cost) pilots that have product support strategies with the above attributes. The baseline at the time that the Section 912(c) report was disseminated is two, the C-17 and the F-117.

#### **C. Assess the feasibility of developing a Product Support Working Capital Fund business area.**

*Why action is critical:* Legacy systems are for the most part supported through the working capital fund (WCF) financing mechanism. In an attempt to move toward commercial practices of leading commercial logistics support entities by developing integrated supply chains for legacy systems, some Program Managers have proposed decapitalization of system assets from the Service and DLA WCFs.

Decapitalization of legacy systems from WCFs may prove destabilizing and could potentially add additional cost to the Service to support all systems. Developing a new WCF business area to support integrated product support strategies was discussed as an option by the Section 912(c) Reengineering Product Support Team. This study would evaluate the feasibility of this approach.

*Action:* Develop an assessment/evaluation of creating a Product Support WCF business area with possible application on a pilot program.

*OPR:* DUSD(L), USD(C), Services, DLA  
*Leading Indicator of Change:* The number of RTOC pilot programs with innovative financial strategies that match their innovative product support strategies. The baseline is zero.

#### **D. Establish logistics system architecture.**

*Why action is critical:* Without a logistics systems architecture, achievement of a DoD system capable of focused logistics

and substantial support cost reductions will be much more difficult if not infeasible.

*Action:* Establish a logistics systems architecture to coordinate integration and reengineering of business practices and supporting information technology systems so that they operate to achieve total supply

chain management in a unified manner. Preliminary draft expected in May 2000.

*OPR:* DUSD(L)

*Leading indicator of change:* The amount of resources programmed by the Services to implement the architecture in their FY 2002 and FY 2003 POMs. The baseline is zero.

#### **4. DoD will reduce its acquisition infrastructure and overhead functions.**

##### **A. Continue to implement Service RDT&E infrastructure efficiency initiatives.**

*Why action is critical:* A primary goal of the RBA is to achieve more efficient and effective business processes to reduce infrastructure costs. These savings will then be realigned to the DoD procurement accounts.

*Action:* Implement Service, Defense Agency efficiency goals.

*OPR:* Services, Defense Agencies

*Leading Indicator of Change:* A decrease in DoD's RDT&E infrastructure cost (10 percent by FY 2000, 25 percent by FY 2005) with commensurate reductions in

people. The baseline is \$3.7 million in FY 1996.

##### **B. Reduce DoD facilities and bases.**

*Why action is critical:* DoD is paying an increasing amount to operate and maintain facilities and bases that are no longer needed. Reduction in facilities and bases will generate savings that can be realigned to the DoD procurement accounts.

*Action:* Request another round of BRAC authority from Congress, privatize housing and utilities where possible, and initiate public/private partnerships where efficient and effective.

*OPR:* DUSD(IA)

*Leading Indicator of Change:* Approval of BRAC authority.

#### **5. The DoD workforce will be trained with the requisite skills to operate efficiently in this new environment and will perpetuate continuous improvement**

##### **A. Deliver team training courses for commercial practices and services.**

*Why action is critical:* As the Department strives to bring about a Revolution in Business Affairs by adopting more commercial processes, practices and products, it is critical that the workforce receive the knowledge and skills to operate in their changing environment and culture. Education and training using multiple approaches, crossing the spectrum from the classroom to distance learning, with the capability to tailor the offerings to specific individual and team requirements when they need it is critical to prepare the workforce to

operate in this changing environment and to achieve enterprise goals. Education and training are tools to accelerate and achieve continuous change in the organization.

*Action:* Offer and deliver courses in FY 2001 within current resources. Training beyond FY 2001 must either be programmed for or reimbursed to the Defense Acquisition University (DAU) by the program office of team receiving the training.

*OPR:* DUSD(AR), DAU.

*Leading Indicator of Change:* In FY 2001 DAU will offer, promote, and fund ten such training opportunities.

## **B. Implement Phase II continuous learning.**

*Why action is critical:* A key characteristic of a world class organizations is to create and maintain a learning organization that seeks out and adopts best practices to improve individual and organizational performance and establish performance measurement incentives to reinforce transition to a learning organization. Education and training are tools to accelerate and achieve continuous change in the organization. Identification of education and training options available and those, which still need to be developed, is important to guide management and the workforce in selecting the most beneficial learning opportunities and meet the continuous learning standards established for the Department.

*Action:* Identify currently available "best practice" education and training for application to the entire acquisition workforce additional "best practice" training or education required, but not currently available. Develop core curriculum and make it prescriptive regarding the courses that must be taken each year in order to maintain proficiency in the most current skill areas. Identify at least five courses that represent best practice training in acquisition management by October 2000 for each career program. Identify three focus areas to recommend for continuing professional development for each career program by October 2000. Report these recommendations for dissemination to the workforce in the annual report required under the continuous learning policy.

*OPR:* DUSD(AR), DAU

*Leading Indicator of Change:* Number of acquisition workforce people taking the courses identified in the focus areas. Baseline is to be determined after the courses are identified.

## **C. Restructure acquisition career fields.**

*Why action is critical:* It is important not only to provide the proper education and training to the workforce, it is also critical to provide the correct type and level of training and education to the correct portion of the workforce. The focus of this initiative is to identify future skills and leadership competencies necessary to equip the future workforce for the new business environment. It will start with increasing the professionalism of the Program Manager Career Field, identified as those who simultaneously manage cost, schedule, and performance, by better defining the requirements for Level II and Level III position certification.

*Action:* Review all level II and III program management positions for inclusion in a new program management position category by March 2000. Recommend changes to the career development standards for this new category (education, training, and experience) by April 2000. Review each critical acquisition position that is retained in the resulting program management position category for assignment specific training, education, and experience (including program office and "rotational" experiences) by April 2000. Report changes as part of the annual report in October 2000.

*OPR:* DUSD(AR), DAU

*Leading Indicator of Change:*

Accomplishment of above actions; a baseline is not applicable.

## **6. DoD will institutionalize continuous change throughout the enterprise.**

### **A. Establish center to accelerate and manage change.**

*Why action is critical:* Successful companies have determined that the use of

an enterprise change model is necessary to accelerate reform. The change model is composed of three elements. 1) A senior leader jump-start program where senior

leaders must create the vision, identify enterprise goals, establish objectives, and facilitate the changes required to meet reform goals. 2) Chartering RITs to accelerate and continue change. 3) Establishing a Change Management Center to sustain the efforts begun under the enterprise change acceleration model. *Action:* Senior DoD leadership meet with senior executives. Implement RITs. Establish change management center. *OPR:* USD (AT&L)

*Leading Indicator of Change:* An increase in the mean response values on the Acquisition Reform Survey for the question "to what extent have the acquisition reform initiatives had an impact on your current job." The scale for the 1999 baseline is: 1 = no impact, 2 = minimal impact, 3 = some impact, 4 = substantial impact, 5 = high impact

could change to reflect those characteristics within one year.

*OPR:* DUSD(AR)/CMC, DAU

*Leading Indicator of Change:* A decrease on the Acquisition Reform Survey in the percentage of respondents with a neutral, unsupportive, or very unsupportive response to the question "describe the level of management support in your current organization for acquisition reform initiatives." The 1999 baseline is 25.9 percent.

Reform Initiatives 1999 Baseline	Mean Response
Integrated Product Teams	3.52
Partnering	3.43
MILSPEC and MILStandard Reform Simplified Acquisition Procedures	3.32
Integrated Product and Process Development	3.22
Electronic Commerce/Electronic Data Interchange	3.16
FAR Part 12/Commercial Item Procurements	3.11
DoD 5000 Rewrite/Deskbook	3.10
Past Performance	3.05
Open Systems Architecture	3.01
Best Value Contracting	2.99
Performance-Based Contracting	2.97
Single Process Initiatives	2.93
Cost as an Independent Variable	2.88
Total Ownership Cost Management	2.74
Oral Proposals	2.60
Prime Vendor Delivery	2.48
Alternate Dispute Resolution Procedures	2.38
Virtual Prime Vendor	2.30

## **B. Adapt the key facets of a DoD Corporate University to the Defense Acquisition University.**

*Why action is critical:* Education and training are essential elements of institutionalizing change. Change is further facilitated by a center of knowledge, skills and tools that senior leadership can use to sustain positive change throughout DoD; inculcate enterprise culture, values, and goals; and provide job training.

*Action:* Determine key characteristics of a corporate university and decide how DAU